HSBC BANK CANADA
SECOND QUARTER 2007 REPORT TO SHAREHOLDERS

- Net income attributable to common shares was C$135 million for the quarter ended 30 June 2007, an increase of 17.4 per cent over the quarter ended 30 June 2006.

- Net income attributable to common shares was C$274 million for the half-year ended 30 June 2007, an increase of 18.6 per cent over the same period in 2006.

- Return on average common equity was 20.7 per cent for the quarter ended 30 June 2007 and 21.4 per cent for the half-year ended 30 June 2007 compared with 19.9 per cent and 20.3 per cent respectively for the same periods in 2006.

- The cost efficiency ratio was 51.2 per cent for the quarter ended 30 June 2007 and 51.7 per cent for the half-year ended 30 June 2007 compared with 52.6 per cent and 52.8 per cent respectively for the same periods in 2006.

- Total assets were C$61.2 billion at 30 June 2007 compared with C$53.1 billion at 30 June 2006.

- Total funds under management were C$25.8 billion at 30 June 2007 compared with C$21.7 billion at 30 June 2006.

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Second Quarter 2007 Management's Discussion and Analysis (MD&A)

MD&A for HSBC Bank Canada for the second quarter of 2007 is dated 26 July 2007. Unless otherwise indicated, all amounts are in Canadian dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Reference should be made to pages 17 to 19 regarding changes in accounting policies. Although certain prior period amounts have been reclassified to conform to the presentation adopted in the current period, in accordance with the new applicable standards, changes have been adopted prospectively and prior periods have not been restated for changes. Except where stated, all tabular amounts are in C$ millions.

Financial Highlights

	Quarter ended			*Half-year ended*	
	30 June 2007	*31 March 2007*	*30 June 2006*	***30 June 2007***	*30 June 2006*
Earnings					
Net income attributable to common shares	**135**	139	115	**274**	231
Basic earnings per share (C$)	**0.28**	0.28	0.24	**0.56**	0.47
Performance ratios⌖ (%)					
Return on average common equity	**20.7**	22.0	19.9	**21.4**	20.3
Return on average assets	**0.86**	0.93	0.88	**0.89**	0.90
Net interest margin	**2.29**	2.29	2.35	**2.29**	2.35
Cost efficiency ratio	**51.2**	52.2	52.6	**51.7**	52.8
Non-interest revenue:total revenue ratio	**36.6**	38.6	37.7	**37.6**	37.3
Credit information					
Gross impaired credit exposures	**195**	153	159		
Allowance for credit losses	**323**	327	319		
– As a percentage of gross impaired credit exposures	**166 %**	214 %	201 %		
– As a percentage of gross loans and acceptances	**0.74 %**	0.77 %	0.84 %		
Average balances⌖					
Assets	**63,286**	60,656	52,573	**61,979**	51,784
Loans	**37,067**	35,994	33,262	**36,534**	32,760
Deposits	**46,691**	45,855	40,847	**46,275**	40,437
Common equity	**2,618**	2,558	2,316	**2,588**	2,296
Capital ratios⌖⌖ (%)					
Tier 1	**8.8**	8.9	9.0		
Total capital	**11.5**	11.0	11.2		
Total assets under administration					
Funds under management	**25,795**	25,083	21,659		
Custody accounts	**9,012**	8,868	8,494		
Total assets under administration	**34,807**	33,951	30,153		

⌖ *These are non-GAAP amounts or non-GAAP measures. Please refer to the discussion outlining the use of non-GAAP measures in this document on page 9.*

⌖⌖ *Calculated in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions Canada.*

Financial Commentary

Overview

HSBC Bank Canada recorded net income attributable to common shares of C$135 million for the quarter ended 30 June 2007, an increase of C$20 million, or 17.4 per cent, from C$115 million for the second quarter of 2006. Net income attributable to common shares for the first half of 2007 was C$274 million compared with C$231 million for the same period in 2006, an increase of C$43 million, or 18.6 per cent.

Net income attributable to common shares in the first and second quarters of 2007 benefited from gains of C$14 million and C$7 million respectively, after related income taxes, on the sale of the bank's shares in the Montreal Exchange. Excluding these gains, net income attributable to common shares for the second quarter of 2007 increased by 11.3 per cent compared to the equivalent quarter in 2006 and net income attributable to common shares for the first half of 2007 increased by 9.5 per cent from the same period last year.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer, said: "HSBC Bank Canada has achieved satisfactory results for the quarter with good year-on-year revenue and net income growth. All of the bank's business lines reported growth in net income in the first half of 2007 compared with the same period last year. Commercial Banking continues to achieve strong results spurred by robust asset growth arising from the continuing strength of the Canadian economy, while maintaining a high level of credit quality. Personal Financial Services has been adversely affected by slower residential mortgage growth and by competitive pressures on interest margins. Corporate, Investment Banking and Markets has benefited from growth in fee income from a number of advisory and underwriting mandates.

"Our focus for the remainder of 2007 will be on leveraging initiatives to enhance sales and improve efficiencies in our operations, while continuing to further develop our direct banking capabilities. The launch in 2006 of our in-branch High Rate savings account was a success and we have followed this up with the recent launch of our internet only Direct Savings account with an introductory rate of 5.0 per cent. The Commercial Banking business will continue to expand distribution and product offerings in the Payments and Cash Management business, leveraging the capabilities of HSBC Group platforms, including systems and software."

Net interest income

Net interest income was C$307 million for the quarter ended 30 June 2007 compared with C$276 million for the same quarter in 2006, an increase of C$31 million, or 11.2 per cent. The increase was driven by growth in assets in all businesses. Average interest-earning assets were C$6.5 billion or 14.0 per cent higher compared with the same period in 2006. Competitive pressures and a challenging interest rate environment impacted the net interest margin which decreased to 2.29 per cent for the quarter compared with 2.35 per cent for the same period in 2006.

Net interest income in the second quarter of 2007 was C$13 million higher compared with the first quarter of 2007, due partly to one extra day in the quarter and to an annualised growth in interest-earning assets of 12.3 per cent. The net interest margin, as a percentage of average interest-earning assets, was the same as the previous quarter.

On a year-to-date basis, net interest income was C$601 million compared with C$542 million for the same period last year, an increase of C$59 million, or 10.9 per cent. Year-to-date net interest income in 2007 benefited from continued growth in assets across all businesses, partially offset by a decrease in net interest margins to 2.29 per cent compared with 2.35 per cent in 2006.

Financial Commentary *(continued)*

Non-interest revenue

Non-interest revenue was C$177 million for the second quarter of 2007 compared with C$167 million in the same quarter of 2006, an increase of C$10 million, or 6.0 per cent. Deposit and payment service charges increased as a result of increased customer activity, particularly in the Payments and Cash Management business. Capital market fees were higher as a result of increased underwriting and advisory mandates in the Global Investment Banking business. Investment administration fees were higher as the bank's funds under management in the wealth management business continued to record strong growth. Investment securities gains decreased as gains on sales of the bank's remaining shares in the Montreal Exchange during the quarter were lower than the C$10 million increase in the fair value of the bank's investments in private equity funds during the same period in 2006.

Non-interest revenue was C$8 million lower in the second quarter of 2007 compared with the previous quarter mainly due to a reduction in investment securities gains on sale of shares in the Montreal Exchange and lower gains on the bank's investments in the private equity funds. However, there was an increase in deposit and payment service charges, and significant growth in investment administration fees. Other income was also higher as activity in the bank's investor immigration programme increased while capital market fees decreased due to lower global investment banking revenues.

On a year-to-date basis, non-interest revenue was C$362 million, C$39 million, or 12.1 per cent, higher compared with C$323 million for the same period last year. This was mainly due to higher investment securities gains arising from the sale of the bank's Montreal Exchange shares, which were partially offset by a lower increase in fair value of the private equity funds than that recorded in 2006. Investment administration fees from higher funds under management, and deposit and payment service charges were also higher than the same period in 2006. These were partially offset by lower trading income, which was negatively affected by reductions in the fair values of derivatives related to balance sheet hedging activities.

Non-interest expenses and operating efficiency

Non-interest expenses were C$248 million for the second quarter of 2007 compared with C$233 million in the same quarter of 2006, an increase of C$15 million, or 6.4 per cent. Salaries and employee benefits expenses were higher in 2007 due to an increase in variable compensation driven by higher revenues, and an increased employee base from continued investments in the business. These increases resulted from strategic growth initiatives in new branches in Alberta and the Greater Toronto area, increases in the Direct Bank, Private Banking and Wealth Management as well as the Payments and Cash Management businesses. Pension plan costs also increased. This was partially offset by a reduction in stock-based compensation, as 2006 was impacted by a charge of C$9 million arising from the waiver of certain conditions in respect of previous awards granted under the HSBC Group's Share Option Plan. Other non-interest expenses were higher due to increased premises and equipment expenses arising from new branches and their related operating expenses as well as increases in investments in systems, together with the impact of higher transaction costs arising from increased customer activity. The cost efficiency ratio improved to 51.2 per cent compared with 52.6 per cent for the same period in 2006.

Non-interest expenses for the second quarter of 2007 were little changed compared with the first quarter of 2007.

On a year-to-date basis, non-interest expenses were C$498 million compared with C$457 million for the same period last year, an increase of C$41 million, or 9.0 per cent. Salaries and benefits expenses were higher due to an increased employee base, increased variable compensation, and increased pension costs. Other non-interest expenses were higher due to continued investments in the business, as well as higher costs arising from increased customer transactions. The cost efficiency ratio improved to 51.7 per cent compared with 52.8 per cent for the same period in 2006.

Financial Commentary *(continued)*

Credit quality and provision for credit losses

The provision for credit losses was C$12 million for the second quarter of 2007, compared with C$6 million in the second quarter of 2006, and C$10 million for the first quarter of 2007. Overall credit quality remains sound, reflecting prudent lending standards and strong economic conditions in Canada. The increased charges in 2007 compared to the same period last year is reflective of an unusually low loan loss experience in 2006.

Gross impaired credit exposures were C$195 million, C$42 million higher compared with C$153 million at 31 March 2007, and C$36 million higher compared with C$159 million at 30 June 2006. Total impaired exposures, net of specific allowances for credit losses, were C$141 million at 30 June 2007 compared with C$95 million at 31 March 2007 and C$109 million at 30 June 2006. Although total impaired credit exposures at 30 June 2007 have increased compared to previous quarters, the increase arises from a single commercial exposure.

The general allowance for credit losses of C$269 million remained unchanged from 31 March 2007 and 30 June 2006. The total allowance for credit losses, as a percentage of loans and acceptances outstanding, decreased to 0.74 per cent at 30 June 2007 compared with 0.77 per cent at 31 March 2007 and 0.84 per cent at 30 June 2006 as the bank's loan portfolios grew. The bank considers the total allowance for credit losses to be appropriate given the credit quality of its portfolios and the current credit environment.

Income taxes

The effective tax rate in the second quarter of 2007 was 35.5 per cent compared with 39.4 per cent in the same quarter of 2006 and 32.9 per cent in the first quarter of 2007. On a year-to-date basis in 2007, the effective tax rate was 34.2 per cent compared with 37.3 per cent for the same period last year.

The higher effective income tax rate in the second quarter of 2007 compared to the prior quarter was due to lower gains from the sale of the shares in the Montreal Exchange, which are taxed at a lower rate. The second quarter of 2007 also included a C$2 million charge for the write-down of future income tax assets resulting from the recent enactment of future federal corporate tax rate reductions announced in the fall of 2006.

When compared to the second quarter of 2006, the effective income tax rate for the second quarter of 2007 reflects lower tax rates applicable on sale of shares in the Montreal Exchange and a charge of C$6 million in the second quarter of 2006 relating to the write-down of federal corporate future tax assets arising from previously announced tax rate decreases. The effective tax rate in 2006 was further impacted by the expense related to stock options, which was not deductible for income tax purposes.

The year-to-date tax rate for the first half of 2007 was lower than the same period in 2006 due to a higher level of gains subject to a lower tax rate and higher non-deductible expenses in 2006.

Balance sheet

Total assets at 30 June 2007 were C$61.2 billion, an increase of C$4.4 billion from 31 December 2006 and C$8.1 billion from 30 June 2006. The loan portfolio continues to be a major driver of balance sheet growth. Commercial loans and bankers' acceptances grew C$1.9 billion since 31 December 2006 on the continued strong economy, primarily in Western Canada. Residential mortgages increased C$0.4 billion, before securitisation during the period, although the rate of increase has slowed. Balance sheet management activity in the Treasury and Markets business has increased the securities portfolio by C$3.2 billion although this was offset by decreases in balances under reverse repurchase agreements of C$2.0 billion.

Financial Commentary *(continued)*

Total deposits increased C$2.0 billion to C$46.2 billion at 30 June 2007 from C$44.2 billion at 31 December 2006 and C$41.0 billion at 30 June 2006. Growth in deposits resulted from higher interest rates and other initiatives, which highlighted term savings products as well as the recently launched High Rate and Direct Savings accounts. Commercial deposits were higher due to growth in term products, driven by improved product offerings in the Payments and Cash Management business and growth in commercial banking relationships. Other liabilities increased largely from an increase in short positions in securities resulting from an increase in activities in the Treasury and Markets business.

Compared with the balance at 30 June 2006, total assets were C$8.1 billion higher largely due to growth in loans and markets activities. Deposit growth benefited from increased cash management balances from corporate customers as well as personal deposit growth from the High Rate and Direct Savings accounts.

Total assets under administration

Funds under management were C$25.8 billion at 30 June 2007 compared with C$25.1 billion at 31 March 2007 and C$21.7 billion at 30 June 2006. Including custody and administration balances, total assets under administration were C$34.8 billion compared with C$34.0 billion at 31 March 2007 and C$30.2 billion at 30 June 2006.

Growth in funds under management in 2007 benefited from strong acquisitions of new clients, strong investment sales and the success of Private Client products.

Capital management

The tier 1 capital ratio was 8.8 per cent and the total capital ratio was 11.5 per cent at 30 June 2007. These compare with 8.9 per cent and 11.0 per cent, respectively, at 31 March 2007 and 9.0 per cent and 11.2 per cent, respectively, at 30 June 2006.

In addition to net income, regulatory capital increased from an issuance of C$400 million in subordinated debentures in the second quarter of 2007. This was partially offset by dividends declared on preferred and common shares and the redemption of C$100 million in subordinated debentures in the second quarter of 2007.

Risk management

Risk management policies and practices are unchanged from those outlined in pages 19 to 24 of the bank's 2006 Annual Report and Accounts.

Related party transactions

Related party transaction policies and practices are unchanged from those outlined in page 15 of the bank's 2006 Annual Report and Accounts. All transactions with related parties continued to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value.

Financial instruments

During the normal course of the bank's business, we make extensive use of financial instruments, including funding loans, purchasing investments, accepting deposits and entering into various derivative instruments. References should be made to note 2 to these interim financial statements regarding changes in accounting policies relating to financial instruments. Although there have been a number of changes in respect of the accounting for financial instruments, there was no change to the basis of calculating the fair value of financial instruments from 31 December 2006, and no significant changes in fair value of financial instruments that arose from factors other than normal economic, industry and market conditions.

Financial Commentary *(continued)*

Off-balance sheet arrangements

The bank enters into a number of off-balance sheet arrangements in the normal course of operations. The most significant off-balance sheet arrangements entered into are guarantees and letters of credit, and derivatives, which were described on pages 14 and 15 of the bank's 2006 Annual Report and Accounts. As part of the bank's adoption of new accounting standards relating to financial instruments, accounting policies with respect to derivatives, guarantees and letters of credit have been changed. Although the notional values of these financial instruments are not recorded on the balance sheet, effective from 1 January 2007, all derivatives, guarantees and letters of credit are recorded at fair value. For more detailed information, reference should be made to note 2 on pages 17 to 19 of these interim financial statements. Prior year amounts have not been restated.

Accounting policies and critical accounting estimates

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Effective 1 January 2007, new standards were adopted relating to financial instruments as described in note 2 to these interim consolidated financial statements. There were no other changes to the significant accounting policies and methods of computation from those used for the preparation of the bank's consolidated financial statements for the year ended 31 December 2006, which were outlined on pages 38 to 70 of the bank's 2006 Annual Report and Accounts.

The key assumptions and bases for estimates that are made under GAAP, and their impact on the amounts reported in these interim consolidated financial statements and notes and, with the exception of estimates made in connection with adoption of the effective interest rate method, (note 2 to the interim financial statements on page 18) remain substantially unchanged from those described on pages 12 to 14 of the bank's 2006 Annual Report and Accounts.

Outstanding shares and securities

	At 26 July 2007	
(amounts are in C$ millions)	*Number*	*Amount*
HSBC Canada Asset Trust Securities (HSBC HaTS™)[1]		
– Series 2010[2]	200,000	200
– Series 2015[3]	200,000	200
		400
Preferred Shares – Class 1		
– Series C[4]	7,000,000	175
– Series D[5]	7,000,000	175
		350
Common shares	488,668,000	1,125

1 *Reported in non-controlling interest in trust and subsidiary in the Consolidated Balance Sheet.*
2 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$38.90 per unit.*
3 *Cash distributions are non-cumulative and are payable semi-annually in an amount of C$25.75 per unit.*
4 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.31875 per share.*
5 *Cash dividends are non-cumulative and are payable quarterly in an amount of C$0.3125 per share.*

Further details regarding features of the bank's securities and shares, including certain restrictions regarding distributions payable for HSBC HaTS, are disclosed in notes 9 and 11 of the bank's 2006 Annual Report and Accounts.

Financial Commentary *(continued)*

Dividend record and payable dates in 2007 and 2008 for the bank's preferred shares, subject to approval of dividends by the Board of Directors are:

Record Date	**Payable Date**
2007	
September 14	September 30
December 14	December 31
2008	
March 14	March 31
June 13	June 30
September 15	September 30
December 15	December 31

During the second quarter of 2007, C$65 million in dividends were declared and paid on common shares.

Payable dates for HSBC HaTS distributions in 2007 is December 31 and in 2008 are June 30 and December 31.

Management's responsibility for financial information

A rigorous and comprehensive financial governance framework is in place at HSBC Bank Canada and its subsidiaries at both the management and board levels. Each year, the Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2007 when the Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the effectiveness of disclosure controls and procedures as well as designing internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with GAAP. The bank's CEO and CFO certify the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the period ended 30 June 2007, and that they are responsible for the design and maintenance of disclosure controls and procedures as well as designing internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with GAAP. There have been no changes in internal controls over financial reporting during the quarter ended June 30, 2007 that have materially affected or are reasonably likely to affect internal control over financial reporting.

As in prior quarters, the bank's audit committee reviewed this document, including the attached unaudited interim consolidated financial statements, and approved the document prior to its release.

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in Management's Discussion and Analysis in HSBC Bank Canada's 2006 Annual Report and Accounts, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Financial Commentary (continued)

Regulatory filings

The bank's continuous disclosure materials, including interim and annual filings, are available on the bank's web site at www.hsbc.ca, and on the Canadian Securities Administrators' web site at www.sedar.com. A French version of this shareholders' report can be downloaded from the bank's website www.hsbc.ca/1/2/fr or from www.sedar.com/homepage_fr.htm. Il est possible de télécharger une version française du rapport aux actionnaires à partir du site web de la banque à www.hsbc.ca/1/2/fr ou à partir de Sedar à www.sedar.com/homepage_fr.htm.

Caution regarding forward-looking financial statements

This document may contain forward-looking statements, including statements regarding the business and anticipated financial performance of HSBC Bank Canada. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation level and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on interest rates and the bank's net interest margin may arise from actions taken by individual banks acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on the bank's revenues. The factors disclosed above may not be complete and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition.

GAAP and related non-GAAP measures used in the MD&A

The bank uses both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized measuring under GAAP and are unlikely to be comparable to similar measures used by other companies. The following outlines various GAAP or non-GAAP measures, which management regularly monitors, to more clearly indicate the derivation of the measure.

Return on average common equity – Average common equity is calculated using month end balances of common equity for the period.

Return on average assets – Average assets are calculated using average daily balances for the period.

Net interest margin – Calculated as net interest income divided by average interest-earning assets. Average interest-earning assets are calculated using average daily balances for the period.

Cost efficiency ratio – Calculated as non-interest expenses divided by total revenue.

Non-interest revenue:total revenue ratio – Calculated as non-interest revenue divided by total revenue.

Average balances – Average assets, loans, and deposits are calculated using daily average balances for the period. Average common equity is calculated using month end balances of common equity for the period.

Financial Commentary *(continued)*

Quarterly summary of condensed statements of income (unaudited)

The bank's quarterly earnings, revenue and expenses are impacted by a number of trends and recurring factors, which include seasonality, general economic trends and competition.

Seasonal factors impact the bank's results in most quarters. The first quarter has the fewest number of days, and therefore net interest income is lower compared with the other three quarters. The second and third quarters generally have lower capital market revenues as market activity is slower than in the first and fourth quarters.

Strong economic conditions over the past eight quarters have impacted the bank's businesses favourably. The low, but rising, interest rate environment, and higher consumer and business spending has resulted in growth in loans and deposits. Rising equity markets have benefited the wealth management businesses. The favourable economic conditions, along with the bank's risk management efforts, have positively impacted the loan portfolio, which has resulted in relatively low provision for credit losses each quarter, which were unusually low in the last two quarters of 2005 and the first three quarters of 2006.

Competitive factors have increased over the eight quarters, resulting in spread compression in loan and deposit products, particularly in Personal Financial Services. In addition, a challenging interest rate environment in 2007 has put pressure on net interest margins.

Over the last eight quarters, the bank's business has been affected by a number of favourable and unfavourable items. In the first and second quarters of 2007, additional non-interest income was recorded relating to the sales of shares in the Montreal Exchange. In the second quarter of 2006, an incremental expense was recorded relating to an increase in the fair value of stock options issued in 2003, and a write-down of future income tax assets. Also in that same quarter, the bank recorded a significant gain on its investment in private equity funds. In the fourth quarter of 2005, resolution of the tax deductibility of the bank's guarantee expense reduced non-interest expenses and income taxes. The tax treatment of some of these items resulted in changes in the bank's effective income tax rate.

The following table summarizes the bank's results for the eight most recently completed quarters.

	Quarter ended							
Figures in C$ millions (except per share amounts)	***30 June 2007***	*31 March 2007*	*31 December 2006*	*30 September 2006*	*30 June 2006*	*31 March 2006*	*31 December 2005*	*30 September 2005*
Net interest income	**307**	294	291	282	276	266	269	261
Non-interest revenue	**177**	185	168	160	167	156	141	145
Total revenue	**484**	479	459	442	443	422	410	406
Non-interest expenses	**248**	250	236	213	233	224	205	208
Net operating income	**236**	229	223	229	210	198	205	198
Provision for credit losses	**12**	10	17	5	6	6	6	7
Income before the under noted	**224**	219	206	224	204	192	199	191
Provision for income taxes	**77**	70	66	76	78	65	58	67
Non-controlling interest in income of trust	**7**	6	7	6	6	7	6	7
Net income	**140**	143	133	142	120	120	135	117
Preferred share dividends	**5**	4	5	4	5	4	3	4
Net income attributable to common shares	**135**	139	128	138	115	116	132	113
Basic earnings per share (C$)	**0.28**	0.28	0.26	0.28	0.24	0.24	0.27	0.23

Although the bank adopted new accounting standards relating to financial instruments with effect from January 1, 2007, these standards have been adopted prospectively and prior periods have not been restated.

Review of Customer Group Results

Personal Financial Services

Income, before taxes and non-controlling interest in income of trust, for the second quarter of 2007 was C$37 million, compared with C$31 million for the same period in 2006. Total revenue was C$18 million higher with growth in both net interest income and non-interest revenue. Net interest income was C$12 million higher and was driven by continued growth in loans resulting from increased consumer spending and a buoyant residential housing market. Average assets for the quarter were C$20.0 billion, compared with C$18.0 billion in the second quarter of 2006. Deposit growth in this period benefited from the bank's new High Rate Savings Account and Direct Savings Account products. Offsetting the growth was the impact of continued competitive pressures on spreads on loans and deposits. Non-interest revenue was C$6 million higher due to gains on sale of the remaining shares in the Montreal Exchange and higher revenue from the Canadian immigrant investor programme. These were partially offset by lower securitisation income. Non-interest expenses were C$10 million higher in 2007 and were largely related to growth and continued investments in the business, which increased salaries and benefits, and other expenses. Stock-based compensation was higher in the second quarter of 2006 due to the waiver of the performance conditions on previous awards granted under the HSBC Group's Share Option Plan. Provision for credit losses were higher in 2007 due to growth in the business, particularly in the bank's automobile lending business.

Income, before taxes and non-controlling interest in income of trust, was C$10 million higher compared with the first quarter of 2007. Net interest income was C$11 million higher driven by growth in loans and deposits combined with higher deposit spreads.

On a year-to-date basis, income, before taxes and non-controlling interest in income of trust, was C$64 million compared with C$61 million for the same period last year. Total revenue was higher due to gains from sale of shares in the Montreal Exchange and net interest income benefited from growth in the business. This was partially offset by higher non-interest expenses arising from growth and investments in the business. Stock-based compensation was higher in 2006 due to the waiver of performance conditions on HSBC Group option awards. Provision for credit losses were higher in 2007 due to growth in the business, particularly in the automobile lending business.

Commercial Banking

Income, before taxes and non-controlling interest in income of trust, for the second quarter of 2007 was C$130 million, compared with C$123 million for the same period in 2006. Net interest income benefited from growth in loans and deposits combined with increased spreads on deposits. Loans were higher due to growth in the number of customers and continued business investment by customers, driven primarily by the strong economy in Canada. Average assets for the quarter were C$24.1 billion compared with C$18.7 billion for the same period in 2006. Growth in deposits was aided by the increase in number of customers as well as strong growth in the Payments and Cash Management business. Non-interest revenue was C$11 million lower compared with the prior year quarter due largely to the valuation gain in private equity investments in 2006. Non-interest expenses were higher arising from the investments in the business. Stock-based compensation was higher in 2006 due to the waiver of the performance condition on HSBC Group option awards.

Income, before taxes and non-controlling interest in income of trust, was C$2 million lower compared with the first quarter of 2007. Net interest income was higher on growth in the business. Non-interest revenue was lower due to prior quarter's gains on sale of investments in the private equity funds. Non-interest expenses were lower due to capitalization of software development costs and timing of marketing costs, partially offset by increases in salary and benefits expenses.

Review of Customer Group Results

On a year-to-date basis, income, before taxes and non-controlling interest in income of trust, was C$262 million compared with C$235 million in the same period last year. Contributing to total revenue growth was higher net interest income as average assets were C$23.5 billion compared with C$18.6 billion for the same period in 2006. Non-interest revenue was lower largely from valuation gains in the private equity investments in 2006. This was partially offset by the current year's gains on sales of investments, increased foreign exchange revenue, and higher credit fees. Non-interest expenses were higher due largely to continued growth in the business, which increased salaries and benefits, and other expenses. Stock-based compensation was higher in 2006 due to the waiver of the performance condition on HSBC Group option awards.

Corporate, Investment Banking and Markets

Income, before taxes and non-controlling interest in income of trust, for the second quarter of 2007 was C$57 million, compared with C$50 million for the same period in 2006. Total revenue was higher due to increased debt capital markets underwriting fees and gains from sale of shares in the Montreal Exchange, partially offset by lower net interest income from balance sheet management activity largely due to the flat to inverted yield curve during the period. Non-interest expenses were higher, primarily in salaries and benefits and operating costs.

Income, before taxes and non-controlling interest in income of trust, was C$3 million lower compared with the previous quarter. Net interest income was negatively impacted by the flat to inverted yield curve.

On a year-to-date basis, income, before taxes and non-controlling interest in income of trust, was C$117 million compared with C$100 million in the same period last year. Net interest income was negatively impacted by the inverted yield curve. Non-interest revenue was higher on growth in fees from wealth management, as funds under management increased. Foreign exchange revenues benefited from the volatility in exchange rates, primarily the Canadian dollar against the US dollar. Higher fees in underwriting and advisory activities, along with gains on sales of shares in the Montreal Exchange, were partially offset by lower trading income. Non-interest expenses were higher due largely to increased salaries costs, consistent with investments in the business and increased revenues.

Consolidated Statement of Income (Unaudited)

Figures in C$ millions (except per share amounts)	*Quarter ended*			*Half-year ended*	
	30 June 2007	*31 March 2007*	*30 June 2006* ⌖	***30 June 2007***	*30 June 2006* ⌖
Interest and dividend income					
Loans	**616**	597	523	**1,213**	985
Securities	**71**	58	46	**129**	89
Deposits with regulated financial institutions	**62**	59	55	**121**	113
	749	714	624	**1,463**	1,187
Interest expense					
Deposits	**431**	413	341	**844**	632
Debentures	**11**	7	7	**18**	13
	442	420	348	**862**	645
Net interest income	**307**	294	276	**601**	542
Non-interest revenue					
Deposit and payment service charges	**25**	23	23	**48**	44
Credit fees	**28**	27	27	**55**	52
Capital market fees	**29**	32	26	**61**	58
Investment administration fees	**33**	30	25	**63**	49
Foreign exchange	**9**	9	8	**18**	15
Trade finance	**6**	6	6	**12**	12
Trading revenue	**16**	14	17	**30**	34
Investment securities gains	**10**	25	13	**35**	18
Securitisation income	**9**	10	11	**19**	19
Other	**12**	9	11	**21**	22
	177	185	167	**362**	323
Total revenue	**484**	479	443	**963**	865
Non-interest expenses					
Salaries and employee benefits	**139**	143	136	**282**	259
Premises and equipment	**32**	31	27	**63**	56
Other	**77**	76	70	**153**	142
	248	250	233	**498**	457
Net operating income before provision for credit losses	**236**	229	210	**465**	408
Provision for credit losses	**12**	10	6	**22**	12
Income before taxes and non-controlling interest in income of trust	**224**	219	204	**443**	396
Provision for income taxes	**77**	70	78	**147**	143
Non-controlling interest in income of trust	**7**	6	6	**13**	13
Net income	**140**	143	120	**283**	240
Preferred share dividends	**5**	4	5	**9**	9
Net income attributable to common shares	**135**	139	115	**274**	231
Average common shares outstanding (000)	**488,668**	488,668	488,668	**488,668**	488,668
Basic earnings per share (C$)	**0.28**	0.28	0.24	**0.56**	0.47

⌖ *Certain prior period amounts have been reclassified to conform with the current period presentation.*

See notes to consolidated financial statements.

Consolidated Balance Sheet (Unaudited)

Figures in C$ millions	***At 30 June 2007***	*At 31 December 2006* ⌖	*At 30 June 2006* ⌖
Assets			
Cash and deposits with Bank of Canada	**448**	368	378
Deposits with regulated financial institutions	**4,403**	4,346	4,193
	4,851	4,714	4,571
Available for sale securities	**6,024**	–	–
Investment securities	**–**	3,604	3,576
Trading securities	**1,891**	1,162	2,120
Other securities	**53**	–	–
	7,968	4,766	5,696
Assets purchased under reverse repurchase agreements	**2,794**	4,760	3,473
Loans			
– Businesses and government	**19,197**	17,819	16,979
– Residential mortgage	**14,367**	14,016	13,130
– Consumer	**4,236**	3,728	3,638
– Allowance for credit losses	**(323)**	(327)	(319)
	37,477	35,236	33,428
Customers' liability under acceptances	**5,644**	5,130	4,454
Derivatives	**535**	311	233
Land, buildings and equipment	**130**	121	99
Other assets	**1,766**	1,732	1,178
	8,075	7,294	5,964
Total assets	**61,165**	56,770	53,132
Liabilities and shareholders' equity			
Deposits			
– Regulated financial institutions	**2,087**	1,469	1,709
– Individuals	**17,010**	17,039	16,108
– Businesses and governments	**27,068**	25,665	23,172
	46,165	44,173	40,989
Acceptances	**5,644**	5,130	4,454
Assets sold under repurchase agreements	**95**	162	375
Derivatives	**675**	318	242
Securities sold short	**1,506**	713	1,256
Other liabilities	**2,811**	2,413	2,108
Non-controlling interest in trust and subsidiary	**430**	430	430
	11,161	9,166	8,865
Subordinated debentures	**836**	563	559
Shareholders' equity			
– Preferred shares	**350**	350	350
– Common shares	**1,125**	1,125	1,125
– Contributed surplus	**204**	202	199
– Retained earnings	**1,336**	1,191	1,045
– Accumulated other comprehensive income	**(12)**	–	–
	3,003	2,868	2,719
Total liabilities and shareholders' equity	**61,165**	56,770	53,132

⌖ *Certain prior period amounts have been reclassified to conform with the current period presentation.*

See notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

Figures in C$ millions	*Quarter ended*			*Half-year ended*	
	30 June 2007	*31 March 2007*	*30 June 2006*	***30 June 2007***	*30 June 2006*
Preferred shares					
Balance at beginning and end of period	**350**	350	350	**350**	350
Common shares					
Balance at beginning and end of period	**1,125**	1,125	1,125	**1,125**	1,125
Contributed surplus					
Balance at beginning of period	**203**	202	188	**202**	187
Stock-based compensation	**1**	1	11	**2**	12
Balance at end of period	**204**	203	199	**204**	199
Retained earnings					
Balance at beginning of period	**1,266**	1,191	990	**1,191**	934
Transitional adjustment – financial instruments (note 2)	**–**	1	–	**1**	–
Net income for the period	**140**	143	120	**283**	240
Preferred share dividends	**(5)**	(4)	(5)	**(9)**	(9)
Common share dividends	**(65)**	(65)	(60)	**(130)**	(120)
Balance at end of period	**1,336**	1,266	1,045	**1,336**	1,045
Accumulated other comprehensive income					
Balance at beginning of period	**15**	–		**–**	
Transitional adjustment – financial instruments, net of income taxes of C$4 million (note 2)	**–**	7		**7**	
Net change in unrealized gains and losses on available for sale securities	**(12)**	7		**(5)**	
Net change in cash flow hedges	**(15)**	1		**(14)**	
Balance at end of period	**(12)**	15		**(12)**	
Total shareholders' equity	**3,003**	2,959	2,719	**3,003**	2,719

Consolidated Statement of Comprehensive Income (Unaudited)

	Quarter ended		*Half-year ended*
	30 June 2007	*31 March 2007*	***30 June 2007***
Net income	**140**	143	**283**
Other comprehensive income (loss) on available for sale securities			
Net unrealized gains (losses) from changes in fair value (net of income taxes of C$2, C$(2), C$–)	**(5)**	7	**2**
Reclassification of realized gains to earnings (net of taxes of C$2, C$–, C$2)	**(7)**	–	**(7)**
	(12)	7	**(5)**
Other comprehensive income (loss) on cash flow hedges			
Unrealized gains (losses) from changes in fair value (net of taxes of C$9, C$–, C$9)	**(15)**	1	**(14)**
Comprehensive income for the periods	**113**	151	**264**

See notes to consolidated financial statements.

Condensed Consolidated Statement of Cash Flows (Unaudited)

Figures in C$ millions	Quarter ended			Half-year ended	
	30 June 2007	*31 March 2007*	*30 June 2006*	***30 June 2007***	*30 June 2006*
Cash flows provided by/(used in) operating activities					
Net income	**140**	143	120	**283**	240
Trading securities	**320**	(1,049)	(358)	**(729)**	(702)
Other, net	**(71)**	1,372	169	**1,301**	646
	389	466	(69)	**855**	184
Cash flows provided by/(used in) financing activities					
Deposits received	**204**	1,788	561	**1,992**	2,381
Securities (purchased) sold under repurchase agreements	**(372)**	305	210	**(67)**	73
Proceeds from issuance of debentures	**400**	–	–	**400**	200
Redemption of debentures	**(100)**	–	–	**(100)**	(60)
Dividends paid	**(70)**	(69)	(65)	**(139)**	(189)
	62	2,024	706	**2,086**	2,405
Cash flows (used in)/provided by investing activities					
Loans funded, excluding securitisations	**(1,203)**	(1,822)	(1,781)	**(3,025)**	(3,047)
Proceeds from loans securitised	**482**	273	796	**755**	1,451
Available for sale/investment securities (purchased) sold	**(495)**	(1,981)	678	**(2,476)**	(653)
Securities sold (purchased) under reverse repurchase agreements	**798**	1,168	(937)	**1,966**	(1,721)
Net change in non-operating deposits with regulated financial institutions	**(334)**	179	120	**(155)**	345
Acquisition of land, buildings and equipment	**(19)**	(5)	(4)	**(24)**	(6)
	(771)	(2,188)	(1,128)	**(2,959)**	(3,631)
(Decrease) increase in cash and cash equivalents	**(320)**	302	(491)	**(18)**	(1,042)
Cash and cash equivalents, beginning of period	**4,340**	4,038	4,649	**4,038**	5,200
Cash and cash equivalents, end of period	**4,020**	4,340	4,158	**4,020**	4,158
Represented by:					
– Cash resources per balance sheet	**4,851**	4,837	4,571		
– less non-operating deposits ⌖	**(831)**	(497)	(413)		
– Cash and cash equivalents, end of period	**4,020**	4,340	4,158		

⌖ *Non-operating deposits are comprised primarily of cash which reprices after 90 days and cash restricted for recourse on securitisation transactions.*

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

(all tabular amounts are in C$ millions)

1. Basis of presentation

These consolidated financial statements should be read in conjunction with the notes to the bank's consolidated financial statements for the year ended 31 December 2006 as set out on pages 38 to 70 of the bank's 2006 Annual Report and Accounts. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used for the bank's consolidated financial statements for the year ended 31 December 2006, except as stated in note 2. Certain prior period amounts have been reclassified to conform to the presentation adopted in the current period. Unless otherwise stated, all tabular amounts are in C$ millions.

2. Changes in accounting policies

Effective 1 January 2007, the bank adopted new Canadian Institute of Chartered Accountants (CICA) Standards relating to (i) the recognition, measurement and disclosure of financial instruments, (ii) hedges and, (iii) comprehensive income. Although these standards were adopted prospectively without restatement of prior year comparatives, the impact on initial adoption as well as the effects of certain transitional adjustments have been recorded as adjustments to opening retained earnings or opening accumulated other comprehensive income as described below.

The principal changes due to the adoption of these new standards are as follows:

a) Comprehensive Income

CICA Handbook Section 1530, *Comprehensive Income* requires the accounting for and disclosure of a new category of equity called comprehensive income, which is comprised of net income, changes in unrealized gains and losses on available for sale assets and changes in unrealized gains and losses related to the effective portion of cash flow hedges. In addition as a result of this new standard, existing Section 3250, *Surplus* has been replaced with new Section 3251, *Equity.* This latter section requires presentation of a separate component of equity for each category that is of a different nature.

The components of comprehensive income are recorded in the consolidated statement of Other Comprehensive Income ("OCI") until recognized in the consolidated statement of income. Accumulated Other Comprehensive Income ("AOCI") is included in the consolidated balance sheet as a separate component of shareholders' equity. All amounts are recorded in OCI on a net of tax basis.

b) Financial Instruments

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement,* all financial instruments, with certain exceptions, are now designated as one of the following: held-to-maturity ("HTM"), loans and receivables, held for trading ("HFT") or available-for-sale ("AFS"). All financial instruments must be recognized at fair value on initial recognition. Fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets and offer prices for financial liabilities. For derivative or other financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Notes to Consolidated Financial Statements (Unaudited)

2. Changes in accounting policies (continued)

Subsequent to initial recognition, financial assets and liabilities held for trading are recorded at fair value with changes in value recognized as gains and losses in net income. Transaction costs are expensed as incurred for financial instruments classified as held for trading. All derivatives must be recorded at fair value. On initial adoption of these new standards, all instruments previously recognized as HFT continued to be recognized as HFT. Included in deposits at 31 December 2006 was C$1,006 million of trading liabilities.

The standard also permits designation of any financial instrument as held-for-trading on initial recognition, ("the fair value option") although use of the fair value option requires that fair values of such instruments can be measured reliably, and compliance is necessary with certain criteria issued by the Office of the Superintendent of Financial Institutions.

Adjustments to the carrying values of certain financial liabilities at January 1, 2007 have been recorded as adjustments to opening retained earnings where, in accordance with the transitional provisions of the new standards, such liabilities have been designated as trading under the fair value option. Included in deposits at December 31, 2006 was C$1,008 million of deposit liabilities which were subsequently designated as trading under the fair value option. At June 30, 2007, the fair value of deposits designated as trading under the fair value option was C$1,012 million.

AFS instruments are measured at fair value with unrealized gains and losses recognized in OCI. Except for merchant banking investments, all instruments previously designated as investments are now designated as AFS, with the exception of a non-material amount of investments now designated as HTM. Certain instruments recorded as deposits with regulated financial institutions are also designated as AFS as are retained interests in securitized loans included in other assets. Adjustments to the carrying values of AFS instruments as at January 1, 2007 have also been included as an opening adjustment to AOCI.

There has been no change in the bank's accounting policies related to merchant banking investments held in investment companies, which are recorded at fair values, nor investments in entities where the bank exerts influence but does not control.

HTM assets, loans and receivables and financial liabilities other than those HFT, are measured at amortized cost ("AC") using the effective interest rate method. The effective interest rate method is also used for allocating the related interest income or interest expense of these financial instruments, including amortization of transaction costs and fees as well as accretion of premiums or discounts and mortgage penalty fees associated with these instruments over the relevant period, whereby the amount recognized in income varies over the life of the instrument based on principal outstanding. An adjustment to opening retained earnings was recognized as a result of recording adjustments to the carrying values of instruments from initial adoption of the effective interest rate method.

Included in deposits with banks at June 30, 2007 was C$1,958 million which was classified as AFS and C$1,036 million that was classified as HFT. These have been recorded on the balance sheet at fair value.

An adjustment to opening retained earnings was also recognized as a result of recording fair values of guarantees associated with banker's acceptances and other guarantees.

c) Hedges

CICA Handbook Section 3865, *Hedges* specifies the circumstances under which hedge accounting is permissible and how hedge accounting should be applied in the financial statements.

Notes to Consolidated Financial Statements (Unaudited)

2. Changes in accounting policies (continued)

Hedges are designated as either fair value hedges or cash flow hedges. Fair value hedges are used to manage the impact on income from changes in the value of fixed rate assets and liabilities caused by changes in interest rates. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk which amounts are recorded as trading income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging instrument, normally a derivative, on which changes are also recorded as trading income.

Cash flow hedges are used to manage the impact on income from the effects of changes in the interest rates on variable rate assets and liabilities. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative will be recognized in OCI while the ineffective portion is recognized in income before taxes. The amounts recognized in OCI will be reclassified to net income in periods in which net income is affected by the variability in the cash flows of the hedged item.

On initial adoption of this new standard, all derivatives were recorded at fair value on the balance sheet. Existing hedging relationships that continue to qualify for hedge accounting are accounted for on initial recognition under the new standard as follows:

a) fair value hedging relationships – any gains or losses on the hedging instrument have been recognized as an adjustment to opening retained earnings. The carrying amount of the related hedged item has been adjusted by the cumulative change in fair value attributable to the designated hedged risk, which is included as an adjustment to opening retained earnings; and

b) cash flow hedging relationships – the effective portion of any gain or loss on the hedging instruments was recognized as an adjustment to opening OCI and the cumulative ineffective portion was included as an adjustment to opening retained earnings.

Gains and losses on derivatives which no longer qualify as hedge accounting instruments have been recognized as an adjustment to opening retained earnings.

A summary of the impact from adopting the new standards on opening retained earnings and opening AOCI is as follows:

	Gross	Tax Impact	Net
Credit (Debit) to opening retained earnings:			
Initial adoption of effective interest rate method	15	(5)	10
Recognition of fair value of guarantees	(13)	5	(8)
Initial designation of certain securities and related derivatives under the fair value option	(1)	–	(1)
Total net impact	1	–	1

The initial impact of adopting the new standards on all other financial instruments, including derivatives, was not material.

	Gross	Tax Impact	Net
Credit (Debit) to opening accumulated other comprehensive income:			
Unrealized gains on financial instruments designated as available for sale	9	(3)	6
Net transitional impact relating to qualifying cash flow hedges	2	(1)	1
Total net impact	11	(4)	7

The net transitional impact relating to qualifying cash flow hedges comprises a credit of C$6 million relating to hedges discontinued prior to maturity, offset by a debit of C$4 million on qualifying cash flow hedges now accounted for as fair value hedges.

Notes to Consolidated Financial Statements (Unaudited)

(all tabular amounts are in C$ millions)

3. Allowance for credit losses

A continuity of the allowance for credit losses is as follows:

	Quarter ended			*Half-year ended*	
	30 June 2007	*31 March 2007*	*30 June 2006*	***30 June 2007***	*30 June 2006*
Balance at beginning of period	**327**	327	325	**327**	326
Provision for credit losses	**12**	10	6	**22**	12
Write-offs	**(16)**	(10)	(12)	**(26)**	(19)
Balance at end of period	**323**	327	319	**323**	319

4. Securitisation

Securitisation activity during the second quarter of 2007 was as follows:

	Residential mortgages
Securitised and sold	486
Net cash proceeds received	482
Retained rights to future excess interest	7
Retained servicing liability	2
Pre-tax gain on sale	3

The key assumptions made at time of sale were (%):

Prepayment rate	26.76 %
Excess spread	0.87 %
Expected credit losses	0.02 %
Discount rate	5.47 %

5. Subordinated debentures

On 9 April 2007, the bank issued C$ 400 million of subordinated debentures maturing in 2022. Interest at an annual rate of 4.80 per cent is payable half-yearly until 10 April 2017. Thereafter, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1.00 per cent, payable quarterly until maturity. These debentures were designated as trading under the fair value option. The fair value of these debentures at June 30, 2007 was $382 million.

On 14 June 2007, the bank redeemed its C$100 Million 5.60 per cent Debenture due 14 June 2012 at a redemption price of 100 per cent of the principal amount plus unpaid accrued interest due at the redemption date.

6. Issued and outstanding shares

	At 30 June 2007		*At 31 December 2006*		*At 30 June 2006*	
	Number	***Amount***	*Number*	*Amount*	*Number*	*Amount*
Preferred Shares – Class 1						
– Series C	**7,000,000**	**175**	7,000,000	175	7,000,000	175
– Series D	**7,000,000**	**175**	7,000,000	175	7,000,000	175
		350		350		350
Common shares	**488,668,000**	**1,125**	488,668,000	1,125	488,668,000	1,125

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

(all tabular amounts are in C$ millions)

7. Stock-based compensation

The expense for stock-based compensation was as follows:

	Quarter ended			Half-year ended	
	30 June 2007	31 March 2007	30 June 2006	**30 June 2007**	30 June 2006
Group share options and savings-related option plans	**1**	1	11	**2**	12
Restricted share plan	**6**	4	4	**10**	6
	7	5	15	**12**	18

8. Employee future benefits

The expense for employee future benefits was as follows:

	Quarter ended			Half-year ended	
	30 June 2007	31 March 2007	30 June 2006	**30 June 2007**	30 June 2006
Pension plans – defined benefit	**6**	6	6	**12**	10
Pension plans – defined contribution	**3**	4	3	**7**	6
Other benefits	**2**	2	2	**4**	4
	11	12	11	**23**	20

9. Customer group segmentation

The bank reports and manages its operations according to the customer group definitions of the HSBC Group.

Effective 1 January 2007, the reporting of some of the bank's businesses was realigned to different customer groups. In addition, there have been changes in cost allocation methodologies. Prior year comparatives have been adjusted to reflect the current year's presentation and disclosure.

	Quarter ended			Half-year ended	
	30 June 2007	31 March 2007	30 June 2006	**30 June 2007**	30 June 2006
Personal Financial Services					
Net interest income	**106**	95	94	**201**	186
Non-interest revenue	**71**	71	65	**142**	128
Total revenue	**177**	166	159	**343**	314
Non-interest expenses	**134**	133	124	**267**	244
Net operating income	**43**	33	35	**76**	70
Provision for credit losses	**6**	6	4	**12**	9
Income before taxes and non-controlling interest in income of trust	**37**	27	31	**64**	61
Provision for income taxes	**12**	8	12	**20**	22
Non-controlling interest in income of trust	**1**	2	2	**3**	4
Net income	**24**	17	17	**41**	35
Average assets	**19,965**	18,851	18,035	**19,411**	17,612

Notes to Consolidated Financial Statements (Unaudited) *(continued)*

9. Customer group segmentation (continued)

	Quarter ended			*Half-year ended*	
	30 June 2007	*31 March 2007*	*30 June 2006*	***30 June 2007***	*30 June 2006*
Commercial Banking					
Net interest income	**172**	168	149	**340**	292
Non-interest revenue	**44**	52	55	**96**	102
Total revenue	**216**	220	204	**436**	394
Non-interest expenses	**80**	84	79	**164**	156
Net operating income	**136**	136	125	**272**	238
Provision for credit losses	**6**	4	2	**10**	3
Income before taxes and non-controlling interest in income of trust	**130**	132	123	**262**	235
Provision for income taxes	**46**	43	47	**89**	85
Non-controlling interest in income of trust	**5**	3	3	**8**	7
Net income	**79**	86	73	**165**	143
Average assets	**24,103**	22,809	18,662	**23,460**	18,608
Corporate, Investment Banking and Markets					
Net interest income	**29**	31	33	**60**	64
Non-interest revenue	**62**	62	47	**124**	93
Total revenue	**91**	93	80	**184**	157
Non-interest expenses	**34**	33	30	**67**	57
Net operating income	**57**	60	50	**117**	100
Provision for credit losses	**–**	–	–	**–**	–
Income before taxes and non-controlling interest in income of trust	**57**	60	50	**117**	100
Provision for income taxes	**19**	19	19	**38**	36
Non-controlling interest in income of trust	**1**	1	1	**2**	2
Net income	**37**	40	30	**77**	62
Average assets	**19,218**	18,996	15,876	**19,108**	15,564

10. Guarantees, commitments and contingent liabilities

Notional amounts relating to financial and performance standby letters of credit, and documentary and commercial letters of credit were as follows:

	At 30 June 2007	*At 31 December 2006*	*At 30 June 2006*
Financial and performance standby letters of credit	**2,214**	2,046	1,893
Documentary and commercial letters of credit	**434**	492	501
Commitments to extend credit			
– Original term of one year or less	**29,912**	29,451	25,137
– Original term of more than one year	**4,860**	4,401	4,011
Credit and yield enhancement	**54**	51	48
	37,474	36,441	31,590

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HSBC Bank Canada
- Class 1 Preferred Shares – Series C (HSB.PR.C)
- Class 1 Preferred Shares – Series D (HSB.PR.D)

HSBC Canada Asset Trust
- Asset Trust Securities – Series 2010 (HSBC HaTS™) (HBH.M)

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Published by HSBC Bank Canada, Vancouver
Printed by Western Printers, Burnaby

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Vancouver, B.C.
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